

## Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 FS-01 ABF-01 PC-04 AID-20

CIAE-00 COME-00 FRB-03 INR-11 NSAE-00 RSC-01 TRSE-00

XMB-07 OPIC-12 SP-03 CIEP-03 LAB-06 SIL-01 OMB-01

AGR-20 NSC-07 SS-20 STR-08 CEA-02 L-03 H-03 DODE-00

PA-04 USIA-15 PRS-01 DRC-01 /186 W

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R 161200Z AUG 74

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 5102

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

LIMITED OFFICIAL USE BRASILIA 6187

E.O.11652: N/A

TAGS: EFIN, BR

SUBJECT: CRUZEIRO DEVALUATION AND BALANCE OF PAYMENTS FORECAST

REF: BRASILIA 5057

1. THE CENTRAL BANK OF BRAZIL ANNOUNCED EFFECTIVE AUGUST 15  
ANOTHER DEVALUATION OF THE CRUZEIRO, THE SEVENTH THIS YEAR.  
THE LATEST DEPRECIATION OF 1.98 PERCENT, WHICH CAME 36 DAYS  
AFTER THE LAST SUCH CHANGE, BRINGS THE CUMULATIVE DEVALUATION  
SO FAR IN 1974 TO 12.94 PERCENT. NEW CRUZEIRO/DOLLAR RATES  
ARE 6.98 FOR BUY AND 7.02 FOR SELL.

2. COMMENT: THE LATEST MOVE PROVIDES ANOTHER CONFIRMATION  
THAT THE MONETARY AUTHORITIES PLAN TO KEEP THE RATE OF  
CRUZEIRO DEVALUATIONS AHEAD WITH THE HIGH LEVELS OF INTERNAL  
INFLATION AND A DETERIORATING BALANCE OF PAYMENTS POSITION.  
DAZA JUST RELEASED BY THE GETULIO VARGAS FOUNDATION SHOW

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THAT THE RIO COST-OF-LIVING THROUGH AUGUST WENT UP BY 23.1 PERCENT

OVER THE SAME PERIOD LAST YEAR (FOR DETAILS SEE SEPTEL). FINANCE MINISTER SIMONSEN PUBLICLY ANNOUNCED A FEW DAYS AGO THE REVISED OFFICIAL FORECASTS FOR THE BALANCE OF PAYMENTS IN 1974, WHICH INDICATE A CONSIDERABLE UPWARD REVISION OF THE DEFICITS. ON THE TRADE ACCOUNT, THE REVISED DEFICIT WAS ESTIMATED AT \$3.5 BILLION, AS OPPOSED TO THE \$1.5-2.0 BILLION MENTIONED EARLIER IN THE YEAR. THE CURRENT ACCOUNT BALANCE WAS PROJECTED BY SIMONSEN AT \$6.0 BILLION, AS COMPARED WITH THE \$3.5 BILLION LEVEL INDICATED BY THE MINISTER AT THE TIME OF SECRETARY SHULTZ' VISIT IN MARCH. IN ADDITION, THE MINISTER NOTED THAT BRAZIL HAS DEBT AMORORIZATION OBLIGATIONS IN 1974 OF \$1.8 BILLION, WHICH MEANS THAT THE TOTAL FINANCING REQUIRED (CURRENT ACCOUNT PLUS DEBT AMORTIZATION) IS \$7.8 BILLION. DESPITE THIS LARGE DEFICIT, SIMONSEN WAS HOPEFUL IN HIS REMARKS THAT BRAZIL CAN CONTINUE TO ATTRACT ENOUGH CAPITAL SO AS TO BALANCE THE ACCOUNTS WITHOUT DIPPING INTO OFFICIAL RESERVES. HE NOTED, HOWEVER, THAT BRAZIL MAY HAVE TO REVIEW THE CURRENT TEN-YEAR MINIMUM TERMS FOR FOREIGN FINANCIAL LOANS SINCE THESE TERMS PRESENTLY PROVIDE A DISINCENTIVE TO THE FLOW OF FUNDS INTO BRAZIL. THE DAILY O GLOBO OF AUGUST 15 CARRIES FRONT-PAGE STORY PREDICTING THAT AUTHORITIES WILL SHORTLY CHANGE THE MINIMUM TERMS FOR FINANCIAL LOANS TO SEVEN FROM TEN YEARS.

CRIMMINS

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## Message Attributes

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